

GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Ravalli County Bank, Hamilton, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of September 30, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

Several factors support the bank's satisfactory CRA rating. First, the bank has maintained a high loan-to-deposit ratio since the last evaluation. Second, it makes almost all its loans to residents of its assessment area. Third, it has a reasonable distribution of loans to borrowers of different incomes and to businesses of different sizes. Finally, it makes a reasonable percentage of its loans to residents in the moderate-income block numbering areas ("BNA") in its assessment area.

The following table indicates the performance level of Ravalli County Bank, Hamilton, Montana, with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | RAVALLI COUNTY BANK HAMILTON, MONTANA PERFORMANCE LEVELS | | |
|---|---|--|--|
| | Exceeds Standards for Satisfactory Performance | Meets Standards for Satisfactory Performance | Does Not Meet Standards for Satisfactory Performance |
| Loan-to-Deposit Ratio | X | | |
| Lending in Assessment Area | X | | |
| Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes | | X | |
| Geographic Distribution of Loans | | X | |
| Response to Complaints | No CRA complaints were received since the previous evaluation. | | |

DESCRIPTION OF INSTITUTION

The bank is able to meet credit needs effectively based on its size and product offerings. The bank received a satisfactory CRA rating at its last evaluation. The bank's main office is located in Hamilton, Montana, and a recently opened detached drive-up facility is located in the southern part of Hamilton. Both these facilities are located in a middle-income BNA. The bank also operates five 24-hour automated teller machines ("ATM"). The three ATMs with deposit-taking capabilities are located at the main office, the drive-up facility, and in Darby, Montana. The Darby ATM is in a moderate-income BNA.

According to its June 30, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$80.5 million. Since March 31, 1995, the bank's total assets have increased approximately \$3.2 million. The bank's volume of net loans has increased approximately \$9.4 million during that same period. Its June 30, 1996, ROC indicates that the bank is primarily a residential real estate lender; approximately 51% of its loan portfolio is composed of consumer real estate loans. The balance of the bank's loan portfolio contains 34% commercial, 9% agricultural, 5% consumer, and 1% other loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of loans by residents of the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of residents and businesses within its assessment area. It extends residential home construction, one- to four-family dwelling, mobile home, agricultural, commercial, and consumer loans. In addition, the bank refers Federal Housing Administration, Department of Veterans Affairs, and private mortgage insurance residential real estate loan applicants to a mortgage company.

DESCRIPTION OF BANK'S ASSESSMENT AREA - RAVALLI COUNTY

The bank has defined its assessment area as Ravalli County in the Bitterroot Valley region of southwestern Montana. The assessment area contains eight BNAs: 9926, 9927, 9928, 9929, 9930, 9931, 9932, and 9933. BNA 9932 is designated as moderate income. The remaining BNAs within the assessment area are classified as middle income.

The bank's assessment area is known as the "banana belt" region of Montana because of moderate climate conditions. The communities within the assessment area include Hamilton, Victor, Darby, Stevensville, Corvallis, and Florence, Montana. According to 1990 census data, the population of the assessment area is 25,010. Hamilton is the county seat for Ravalli County.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not located in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Pursuant to CRA's definitions, low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines middle-income individuals as persons with incomes of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes of 120% or more of the statewide nonmetropolitan median family income are classified as upper-income persons. BNAs are classified using similar categories based on the level of the median family income in the geography. Based on 1990 census data, Montana's nonmetropolitan median family income is \$27,352. According to updated 1995 census data, the statewide nonmetropolitan median family income in Montana is \$32,200.

According to 1990 census data, the assessment area's median family income is \$24,522, while its median household income is \$21,113. There are 6,932 families and 9,608 households in the assessment area. Approximately 11% of

the families and 15% of the households in the assessment area have incomes below the poverty level. The distribution of family and household incomes for the assessment area is summarized in the following table.

| ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL | | | | |
|---|------------|-----------------|---------------|--------------|
| Unit of Measure | Low Income | Moderate Income | Middle Income | Upper Income |
| Households Compared to Median Household Income | 24% | 19% | 19% | 38% |
| Families Compared to Median Family Income | 22% | 22% | 23% | 33% |

The economy in the bank's assessment area is agricultural and natural resource-based and is generally strong and stable. Primary industries in the area include log home builders, lumber, health services, and retail.

According to a community contact, affordable housing is scarce in the assessment area because of an influx of people migrating to the area from out of state. Bank management and community contacts stated that affordable housing groups are working to develop new housing for low-income individuals.

There is some resistance to building affordable housing by some property owners, who believe property values of neighboring homes will be adversely affected.

Examiners contacted local government and business representatives familiar with the assessment area as part of the bank's CRA evaluation. Information obtained from these contacts was used to help evaluate the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs in its assessment area is considered satisfactory. The criteria on the following pages were analyzed to determine this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance. The bank's quarterly net loan-to-deposit ratio has been consistently high and ranged between 71% and 81% since the previous evaluation. Based on June 30, 1996, Uniform Bank Performance Report data, the bank's loan-to-deposit ratio is 80%, which places it in the 87th percentile of its peer group. Based on ROC data for the six calendar quarters since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 77%. The following chart summarizes the bank's loan-to-deposit ratios and its components since the previous evaluation.

| DATE | NET LOANS (In thousands) | DEPOSITS (In thousands) | NET LOAN-TO- DEPOSIT RATIO |
|--------------------|-------------------------------------|------------------------------------|---------------------------------------|
| June 30, 1996 | \$57,592 | \$71,696 | 80% |
| March 31, 1996 | \$54,150 | \$66,916 | 81% |
| December 31, 1995 | \$53,350 | \$70,773 | 75% |
| September 30, 1995 | \$51,598 | \$66,932 | 77% |
| June 30, 1995 | \$52,271 | \$66,368 | 79% |
| March 31, 1995 | \$48,221 | \$67,514 | 71% |

The bank's net loans and deposits have increased since the previous evaluation. Since March 31, 1995, net loans and deposits have increased approximately \$9.3 million and \$4.2 million, respectively. According to bank management, the increase in deposits was due in part to a large temporary deposit. In addition, the bank has stepped up its marketing for deposits, including repricing fees on its checking accounts to be more competitive. The bank attributes the increase in loans to its marketing efforts and its good lending reputation.

The bank has made several community development loans since the previous evaluation. These loans included funds for improvement to low- and moderate-income real estate properties and expansion of small businesses.

The bank's quarterly net loan-to-deposit ratio is greater than the quarter average ratios of two of its local competitors. Based on quarterly ROC data, the table on the following page identifies asset size and quarterly average net loan-to-deposit ratios for the bank and two of its competitors.

| BANK | TOTAL ASSETS June 30, 1996 (In thousands) | QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO |
|--|--|--|
| Ravalli County Bank Hamilton, Montana | \$ 80,493 | 77% |
| Competitor A | \$ 58,396 | 64% |
| Competitor B | \$104,649 | 58% |

Based on the bank's consistently high loan-to-deposit ratio, the increase in its loan and deposit levels, and the very favorable comparison to its peer banks and competition, the bank's loan-to-deposit ratio exceeds standards for satisfactory performance.

DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA

A review of a statistical sample of loans originated by the bank within at least the last six months reveals that a substantial majority of its loans were made inside its assessment area. The table below shows the percentages for the number and dollar volume of major product line loans that were inside the assessment area.

| PERCENTAGE OF LOANS IN THE ASSESSMENT AREA | | |
|---|----------------------------------|---|
| Major Loan Product Lines | Total Number of Loans | Total Dollar Amount of Loans |
| Small Business | 95 | 96 |
| Residential Real Estate | 91 | 97 |
| Consumer | 91 | 88 |

This level of concentration in the assessment area exceeds standards for satisfactory performance. As noted in the table, the vast majority of the bank's loans were within the assessment area. Because residential real estate and small business loans comprise a large percentage of the bank's loan portfolio, the high percentage of these loans and loan amounts in the assessment area is significant.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different incomes and to businesses of different sizes meets the standards for satisfactory performance. As discussed earlier, the CRA classifies income levels into four categories: low, moderate, middle, and upper. Based on the 1990 census, the median household and family incomes for the bank's assessment area are \$21,113 and \$24,522, respectively. Both figures are below the statewide nonmetropolitan household and family incomes for Montana, as of the same census. The following table shows the percentage of residential real estate and consumer loans made to borrowers of different income levels.

| DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL* | | | | |
|---|------------------------|-----------------------------|---------------------------|--------------------------|
| | Low- Income | Moderate- Income | Middle- Income | Upper- Income |

| Loan Type | Borrowers | Borrowers | Borrower | Borrowers |
|---|-----------|-----------|----------|-----------|
| Residential Real Estate: | | | | |
| Total Number of Loans | 7% | 20% | 21% | 52% |
| Total Amount of Loans | 0% | 2% | 66% | 31% |
| Consumer: | | | | |
| Total Number of Loans | 35% | 17% | 30% | 17% |
| Total Amount of Loans | 3% | 7% | 6% | 7% |
| *Income level is determined based on Montana's 1995 nonmetropolitan median family income of \$32,200. | | | | |

The data reveals that the bank extends a large percentage (52%) of its consumer loans to low- and moderate-income borrowers. However, actual income information was available for only 22% of the reviewed consumer loans in the sample. Income data was available for all sampled residential real estate borrowers.

Low- and moderate-income households comprise 43% of the bank's assessment area. More specifically, low-income and moderate-income households represent 24% and 19% of the total households, respectively. As the table shows, the bank made 27% of its residential real estate loans to these borrowers. This level of lending is lower than the percentage of low- and moderate-income households in the assessment area. This level is mitigated somewhat by the percentage of assessment area households with incomes below the poverty level (15%) and the relatively high median value of a house in the assessment area (\$61,734). Based on CRA's income definitions for individuals, the assessment area's low-income and moderate-income individuals have incomes lower than \$16,100 and \$25,760, respectively. Given the assessment area's housing values, a low-income person would probably have more problems qualifying for a home loan than would a moderate-income individual. The bank's level of lending to moderate-income borrowers compares closely to the percentage of moderate-income households in the assessment area.

The bank, conversely, has an excellent record of lending to small businesses. Approximately 92% of the total number and 85% of the total dollar amount of loans sampled were made to small businesses. Of these small business loans, 90% were made in amounts of \$100,000 or less. Another 5% of the loans had amounts greater than \$100,000 but less than or equal to \$250,000. The remaining 5% of the bank's small business loans had amounts greater than \$250,000.

As discussed above, the bank has maintained a reasonable level of lending to low- and moderate-income residential real estate borrowers and a significant level of lending to small businesses. Information on the distribution of consumer loans is given little weight due to the lack of income information for most consumer borrowers. Based on the distribution of loans by borrower income and small business revenue, the bank's lending meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans between geographies of different income levels in its assessment area meets the standards for satisfactory performance. As previously discussed, the bank's assessment area includes one moderate-income BNA, with the remaining BNAs designated as middle income. The following table shows the distribution of the bank's consumer, residential real estate, and small business loans in moderate- and middle-income BNAs.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA

| BY BNA INCOME LEVEL* | | |
|---|---------------------|--------------------|
| Loan Type | Moderate-Income BNA | Middle-Income BNAs |
| Consumer | | |
| Total Number of Loans | 6% | 94% |
| Total Amount of Loans | 3% | 97% |
| Residential Real Estate | | |
| Total Number of Loans | 10% | 90% |
| Total Amount of Loans | 2% | 98% |
| Small Business | | |
| Total Number of Loans | 11% | 89% |
| Total Amount of Loans | 34% | 66% |
| *The bank's assessment area does not include any low- or upper-income BNAs. | | |

The bank's consumer, residential real estate, and small business lending performance in the moderate-income BNA is reasonable considering the percentage of assessment area residents in this BNA. In fact, the bank made a significant percentage (34%) of the total dollar volume of small business loans in the moderate-income BNA. The total population of the moderate-income BNA is 1,657, which is 7% of the total assessment area population. Given the assessment area's population distribution, the total number and dollar amount of the loan originations to residents of the moderate-income BNA is reasonable and meets the standards for satisfactory performance.

GENERAL

The evaluation did not reveal any substantive violations of fair lending laws and regulations; only violations involving the technical aspects of Regulation B were found. The bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

September 30, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Ravalli County Bank
Name of Depository Institution

093005300000
Identification Number of Institution

Hamilton, Montana
Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.